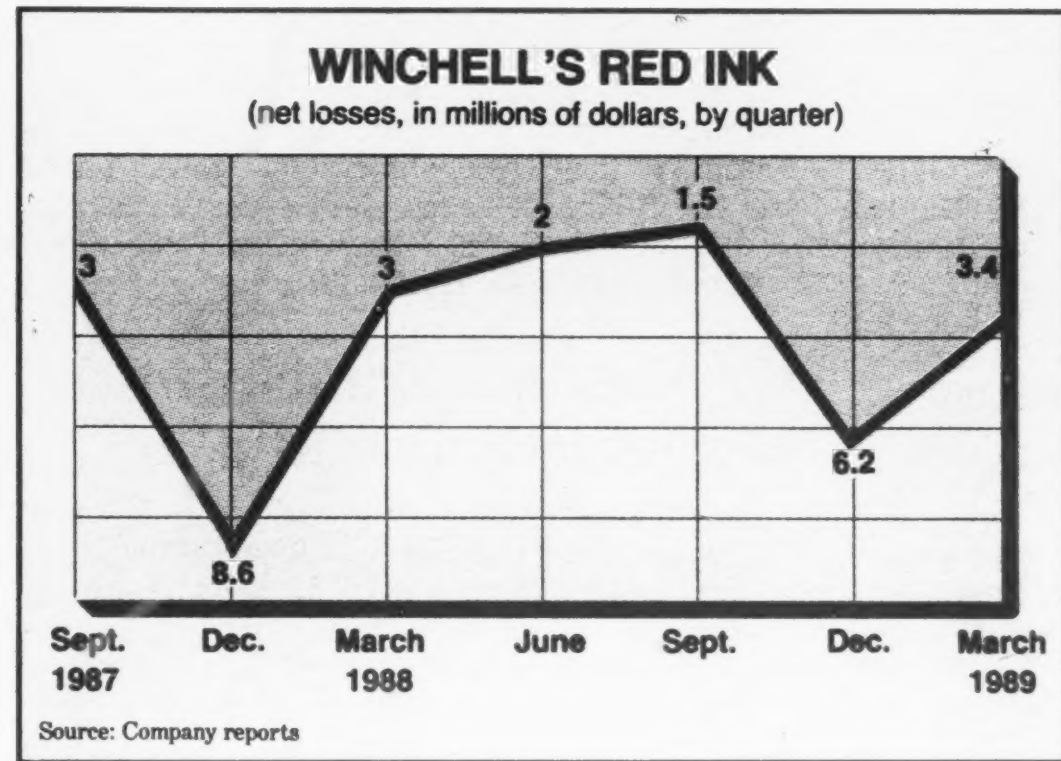


Nation's Restaurant News®

The Weekly Newspaper of the Food-Service Industry

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Canadian company acquires Winchell's

By Richard Martin
LA MIRADA, Calif. — A Canadian restaurant firm has agreed to pay \$40 million to buy loss-plagued Winchell's Donut Houses Operating Co. L.P. from 42-percent owner Denny's Inc. and the doughnut chain's other partners.

The agreement comes six weeks after Denny's parent TW Services succumbed to a \$1.7 billion takeover by Coniston Partners.

The 657-unit Winchell's outfit, which has posted losses averaging \$1 million per month for more than two years, would be acquired by Shato Holdings Ltd. of Vancouver, British Columbia, under the terms of a letter of intent with the limited partnership.

Privately held Shato currently operates 63 Kentucky Fried Chicken units, 31 White Spot family restaurants, and (See **WINCHELL'S**, page 91)

Mayer flies KFC coop; Pepsico names Cranor

By Milford Prewitt
LOUISVILLE, Ky. — Richard Mayer, Kentucky Fried Chicken's chairman and chief executive officer and one of the engineers of the chain's impressive turnaround in the late 1970s, has resigned to become president of General Foods USA, the packaged-goods company.

John M. Cranor III, a veteran executive of Pepsi-Cola Co., KFC's parent, has been named Mayer's successor as president and chief executive. Cranor was formerly president of Pepsico East, a bottling and distribution operation.

In another development at Pepsico, the company has hired Kyle Craig, a former



Mayer



Cranor

chief of the Burger King, Steak & Ale, and Bennigan's operations for Pillsbury Co., as an adviser in an undefined capacity.

Cranor, 42, is a Harvard M.B.A. graduate who began his career at Pepsico in 1977 as a marketing group manager at Frito-Lay. He could not be reached for comment.

Cranor's first management (See **MAYER**, page 4)

McPIZZA?

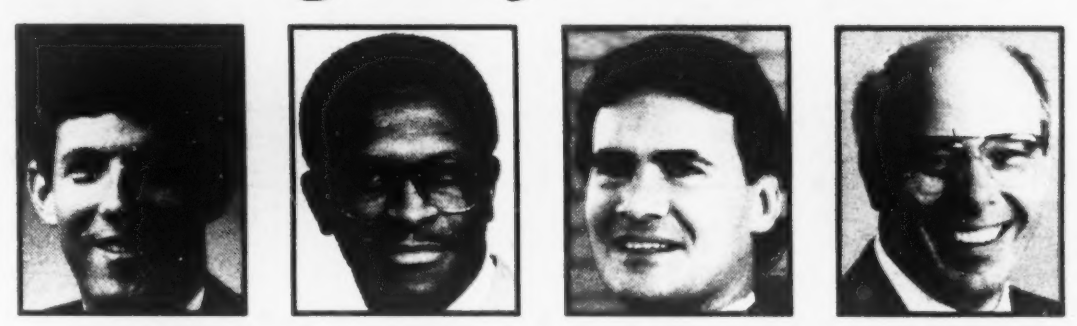
McDonald's widens pizza test; pizza operators gird for assault

By Rajan Chaudhry
EVANSVILLE, Ind. — McDonald's Corp., operator of the world's largest fast-food chain, is expanding its test of pizza here, and pizza operations nationwide are bracing for the worst.

"We're ready to give them a fight with everything we've got," vowed Steve Reinemund, president of the world's third-largest chain, Pizza Hut.

McDonald's, which began offering a 14-inch, round, traditional-style pizza in a single franchised unit here earlier last month, will expand its test to about 15 restaurants in Evansville and nearby Owensboro, Ky., within about six weeks, according to local unit managers.

Its latest pizza product is offered in four varieties — cheese, pepperoni, sausage, and deluxe, which sports cheese, sausage, pepperoni, green pepper, onion, button



Reinemund Cain Bergren Rensi

mushrooms, and tomato slices, said Melissa Oakley, McDonald's representative. The pizzas are priced from \$6 to \$10.

Caesar's — are leading the weak to slaughter.

"There are just too many pizza companies out there," said Herman Cain, president of Godfather's Pizza, "and God bless them, but some are going to have to go away."

Only last month, cash-strapped Pantera's Corp., which operates the nation's fourth-largest pizza chain, disclosed that it was unable to pay \$4.6 million in past-due debt payments and that it would start selling units to meet its financial obligations.

The impact of 10,700-unit (See **McD**, page 91)

McD's latest quarter:
Net income, up 11%
Revenue, up 9%
System sales, up 5%
News Digest, page 2

FOOD WATCH

Bastille meal

GRANITE SPRINGS, N.Y. — Celebrating the French bicentennial, Maxime's Restaurant Français served up a seven-course Bastille day meal of traditional, Provençal specialties not unlike what Marie Antoinette might have eaten before her date with the guillotine.

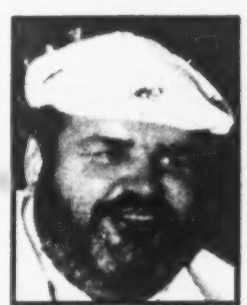
Chef-owner Maxime Ribera kicked things off with a terrine of sweet breads and foie gras served with a petite, mixed-greens salad, followed by a cassoulet of lobster, shrimp, and mushrooms in a lobster cream sauce. Next up was fillet of (See **FOOD WATCH**, page 4)

K-Paul's takes Manhattan

Prudhomme teams with Ark group

By Milford Prewitt
NEW YORK — Internationally acclaimed Louisiana chef Paul Prudhomme and Ark Restaurant Corp. have teamed up to open a Manhattan version of Prudhomme's famous New Orleans haunt, K-Paul's Louisiana Kitchen.

The restaurant, to be called K Paul's New York, is scheduled to open next week in the site of the former Big Kahuna, the 1960s, California-beach-themed disco-nightclub that



Prudhomme

also was owned and operated by Ark. The Big Kahuna was shut down and its space renovated and redecorated to make way for the new venture.

Ark Restaurants owns or manages about 20 distinctly themed, full-service restaurants. All but three of them are in Manhattan.

Located on lower Broadway at Houston Street, the 120-seat K Paul's New York is directly across the street from (See **K PAUL'S**, page 91)

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NEWS DIGEST

Jerrico cuts office staff
by 10% in cost-saving push

LEXINGTON, Ky. — Jerrico Inc., operator of the Long John Silver's quick-service seafood chain, has laid off 10 percent of its headquarters staff in a move to tighten operating costs.

Among the 61 discharged employees were two corporate vice presidents, according to spokesman Bruce C. Cotton. The others held a variety of positions, he said.

The dismissals were the first in the company's 20-year history, Cotton said. "We've been looking for ways to take costs out of our business for some time," he commented. "We've cut costs in the field and in our food products. The next [target] was our corporate overhead."

Analysts estimated that the headquarters layoffs would save Jerrico more than \$1.5 million annually.

McDonald's profits rise 11%
despite soft systemwide sales

OAK BROOK, Ill. — McDonald's Corp., which operates and franchises 10,720 fast-food hamburger restaurants, said net income improved 11 percent, to \$196 million, on a revenue rise of 9 percent, to \$1.55 billion, for the second quarter ended June 30.

Despite the rollout of its McChicken sandwich to U.S. stores in May, McDonald's systemwide sales increased only 5 percent, to \$4.34 billion, in the latest quarter.

The company blamed the economic environment, a reduction in consumer spending, discounting by the competition, and weak performance in the Oil Belt for its slow U.S. sales.

For the six months ended in June, McDonald's posted an 11-percent year-over-year increase in net income, to \$337.7 million, on a 10-percent increase in revenues, to \$2.93 billion.

Systemwide sales improved 7 percent, to \$8.27 billion.

Chicago's Le Prince closes
after high prices chill sales

CHICAGO — Le Prince, the high-priced French restaurant in the Swiss Grand Hotel here and a cousin of Restaurant Lafayette in New York's Drake Hotel, has closed because of slack traffic.

Executives of Swissôtel, the Swiss Grand's operator, attributed Le Prince's lack of business to a poor understanding of Chicago consumers, who balked at paying \$100 per person for dinner. Many high-end restaurants have recently reported traffic declines stemming from a heightened consumer price sensitivity.

Le Prince's menu was drafted by renowned French chef Louis Outhier, who continued to oversee the place as executive chef.

Swissôtel also manages the Lafayette hotel in Boston. Another luxury property is being developed in Atlanta.

Nestle plans withdrawal
from Swissôtel venture

ZURICH, Switzerland — Nestle S.A., the multinational conglomerate based here, said it plans to pull out of Swissôtels, a joint-venture whose U.S. lodging properties are noted for having top-rated restaurants.

Nestle said it split with SwissAir, the airline that owns 51 percent of Swissôtels, because it failed to derive synergistic benefits from the venture. SwissAir said it would seek another company to assume Nestle's 49-percent interest in the partnership.

Swissôtels' inns operate in the United States under the name Lafayette and Swiss Grand.

Mike Ditka to cut ties
with Ditka's Trackside

ARLINGTON HEIGHTS, Ill. — Mike Ditka, the Chicago Bears coach who lent his name to Ditka's Trackside Restaurant here, is severing ties with the place in September.

The restaurant, which doubles as a thoroughbred racing wagering facility, will be renamed "Trackside." The attraction of Ditka and the Bears was secondary to horse racing, said Jim Rittenberg of JR Enterprises, which originally managed the facility.

Krystal eyes franchising
of double-drive-only

CHATTANOOGA, Tenn. — The Krystal Co., operator of the 233-unit Krystal fast-food hamburger chain, said it would begin franchising a drive-thru-only version of its concept later this year.

The drive-thru-only units feature a new building design and offer a limited menu comprising Krystals hamburgers, fries, drinks, and its new breakfast sandwich, the Sunriser, said Ted Murphy, Krystal's vice president of marketing.

Dunkin' bows to demands
of its unwanted suitor

RANDOLPH, Mass. — In a swift parry of an unwanted pursuer's legal challenge, Dunkin' Donuts has bowed to demands for the disclosure of financial information without actually issuing any additional details.

The hostile suitor, DD Acquisitions, a partnership of Toronto-based Cara Operations and Kingsbridge Capital, filed a court complaint accusing Dunkin' of violating securities laws. DD said Dunkin' illegally appended a government filing with an investment guide's predictions of the doughnut maker's earnings. The Canadian company demanded that Dunkin' rectify the situation by releasing its own financial projections.

Dunkin' chairman Robert Rosenberg quickly responded by saying that the Value Line investment guide's projection of a 52-percent profit rise, to \$22 million, "is consistent with the company's internal projections." No further details were issued.

Shakey's names Stone president

By Alan Liddle

Gene Stone, former chairman of Seattle-based Skipper's Inc., was named president of 220-unit Shakey's Pizza Restaurants, returning to a chain he once helped expand from less than 10 restaurants to several hundred.

Among his first duties will be organization of the movement of the chain's domestic headquarters from the Dallas area to somewhere in the San Francisco Bay Area, where the international branch is located, he indicated. He also will move to develop company restaurants, he said. There are currently no corporate-owned Shakey's.

Stone, 51, was hired to head up Shakey's by officials of Inno-Pac Inc. Holdings, the Singapore company that bought the pizza chain earlier this year. He will assume the presidency and additional title of chief operating officer this week and said he looked forward to help-

ing revitalize the chain, America's oldest franchised pizzeria concept.

"It has always bothered me that [Shakey's] hasn't done better than it has," said Stone, who left the pizza chain in 1969 after rising to the rank of vice president of franchising and company-store operations. "I like to say that Shakey's was the first name in Pizza and that I'd like it to be the last name in pizza."

Stone resigned from fried-fish specialist Skipper's after 17 years in late 1987 at a time when the board was growing anxious about the chain's mediocre financial performance; during his years at Skipper's, Stone expanded the chain from 12 units to more than 200. He said recently that he resigned because it was "time to do something else."

Before joining Skipper's, Stone did stints in executive positions with Long John Silver's and Lum's.

FINANCIAL NEWS

Menu prices advance despite easing costs

By Rajan Chaudhry
WASHINGTON — Although food-cost inflation eased at the nation's restaurants and bars in June, slow sales growth prevented operators from checking the advance of menu prices, government figures suggest.

Wholesale food-price inflation slowed to 5.4 percent in June from a 7.1-percent year-over-year clip in May, according to the U.S. Labor Department's Producer Price Index for finished consumer foods.

But menu prices increased at a 4.6-percent unadjusted rate, about the same rate as in each of the five previous months, according to the department's Consumer Price Index for Food Away From Home.

And sales grew at a 5-percent nominal rate, down .6 percentage points from the rate of gain logged in May, and barely strong enough to cover the general rate of inflation, according to the Census Bureau.

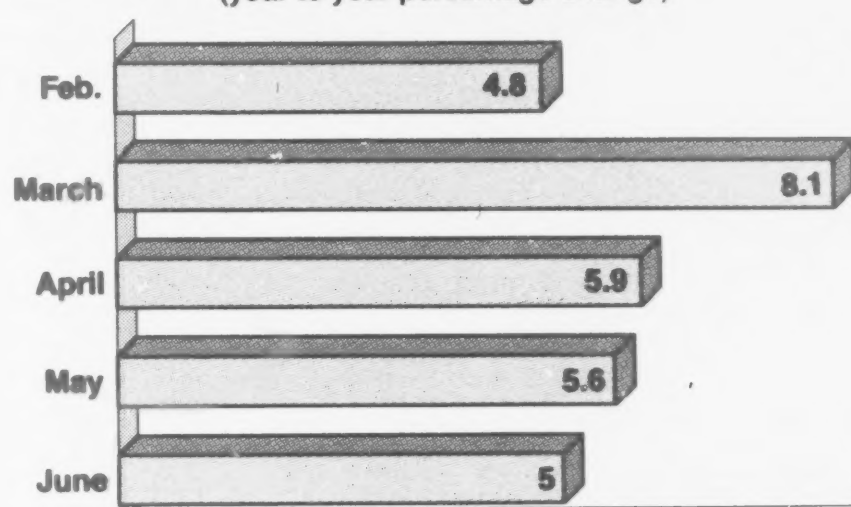
Almost as disturbing for restaurateurs, supermarket price inflation slowed in June to 7.3 percent from 8.1 percent in the previous month.

"We are in battle with the supermarkets, and the supermarkets are only now beginning to wake up," said food-service consultant George D. Rice, chairman of GDR Enterprises Inc.

"Food costs look to be fairly reasonable this year," he said,

SALES GROWTH RATE SLOWS AT EATING AND DRINKING PLACES

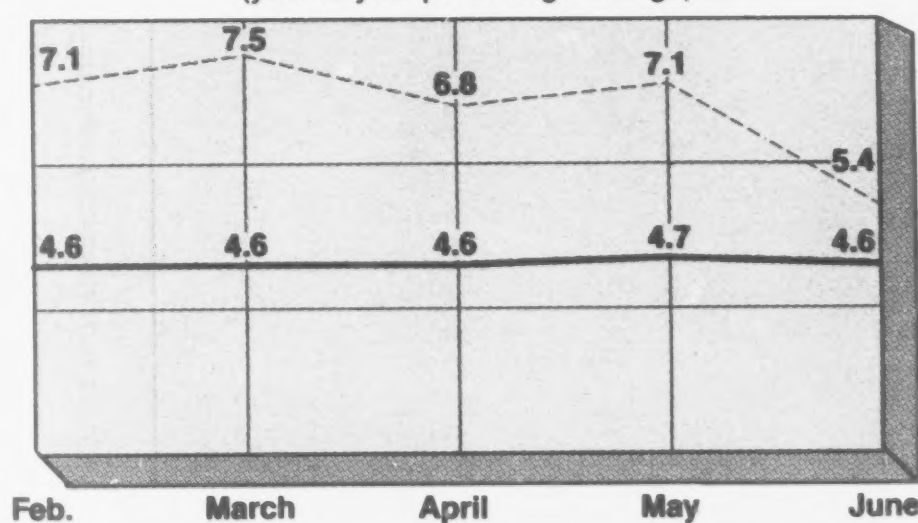
(year to year percentage change)



Source: U.S. Census Bureau. Figures are not adjusted for inflation.

MENU PRICE INFLATION HOLDS STEADY DESPITE EASING FOOD COST PRESSURES

(year-to-year percentage change)



Source: U.S. Department of Labor. Figures are not adjusted.

permarkets. They're providing some really terrific options these days, and more and more they're going to get into

Department, followed by dinner checks, up 4.6 percent, and prices of other meals and snacks, up 4.5 percent.

Among the top movers at the producer level, fresh and dried vegetable prices increased 42 percent, the cost of eggs was up 36 percent, processed turkey prices shot up 33 percent, and fresh fruit costs climbed 20 percent.

A handful of commodities, including milled rice, fish, and shortening and cooking oils, fell in price compared with last year.

'We are in battle with the supermarkets, and the supermarkets are only now beginning to wake up.'

"but the whole issue is that, as our costs do increase—particularly with fast-food chains—we have to keep an eye on su-

[the industry's] knickers."

Lunch tickets led June's price hikes, advancing 4.9 percent, according to the Labor

FOOD PRICE OUTLOOK

Drops seen in some food prices

Not all food prices are going up. Over the past few months, prices of a number of items have dropped, including those for most fats and oils, butter, raw rice, and green coffee beans.

Coffee has dropped in price because the International Coffee Organization could not settle on quotas. As a result, world prices plummeted, but observers don't expect the condition to continue long. U.S. roasters are now buying at the lower prices for fall roasting, so prices later this year should reflect some reduction.

Beef and pork, on the other hand, have confused agri-economists, who predicted that prices would decline slowly during the summer. Instead, they remain above last year's and are slowly moving up. Now forecasts are for some slackening in price by fall.

Not all the news is good, however.

Frozen cod blocks and slabs, the raw material from which portions are cut, are holding in

price, but demand is running close to supplies. Lowered imports from Canada could put the boost on prices by fall, when a normal slowdown occurs.

The price of California avocados will continue higher than normal through next year. In April growers were hit by an unseasonal hot spell, which caused blossoms to drop. This year's crop is already below last year's, and the carryover to next year will be small, making supplies tighter. Good Florida supplies and anticipated strong imports from Chile in the fall should keep prices from jumping.

With strawberry farmers getting good prices on the fresh market, the Oregon crop down sharply, and that of Washington state late, freezers have not been getting the fruit they expected, so the frozen pack is running under budget, especially for the Northwest varieties. Expect this winter's prices to be higher.

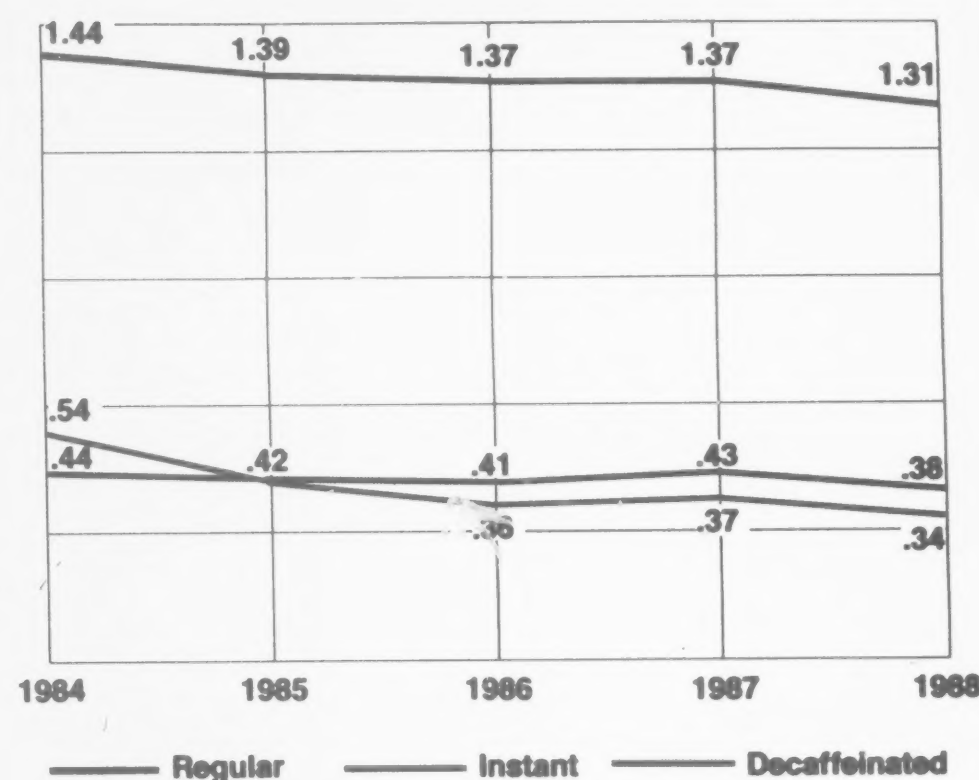
— Patt Patterson

FACT FILE

A look at the statistics shaping the industry

COFFEE CONSUMPTION COOLS

(cups per person per day)



Source: The Lempert Report/National Coffee Association

NRN FINANCIAL DIGEST

Uno boosts earnings 94% for 3rd Q

BOSTON — Uno Restaurant Corp. said a 50-percent increase in franchise income and comparable-store sales growth of almost 10 percent contributed to a 94-percent improvement in net income, to \$818,000, for its third quarter ended July 2.

Revenues for the latest quarter advanced 44 percent, to \$11.4 million, the company noted.

Operating income as a percent of sales increased to 23 percent, three percentage points better than in the preceding quarter and almost four points better than in the same quarter of last year.

Through the first nine months of the year, net income increased 55 percent year-to-year, to \$2.1 million, on a 42-percent rise in revenue, to \$30.8 million.

Uno operates about 25 company and 33 franchised Pizzeria Uno casual-theme pizza restaurants.

Benihana nets \$1.7 million for year

MIAMI — Benihana National Corp. rebounded from a loss of \$6.4 million in fiscal 1988 to post a net profit of \$1.7 million for the year ended March 26, 1989.

The results for the latest year include a \$140,000 gain on the disposition of the company's frozen foods operation. Last year's deficit included a \$2.6 million loss from the frozen-foods operation as well as a \$1.6 million loss on the disposition of the business.

Sales for 1989 improved 6 percent, to \$34.8 million, over last year's. For the fourth quarter net income was \$272,000 vs. a loss of \$2.4 million in the year-ago quarter. And sales for the latest quarter improved 13 percent year-over-year, to \$8.9 million.

The company said it opened three new Benihana Japanese-style restaurants in fiscal 1989, bringing the total to 20. It also said it plans to open two smaller versions of the Benihana concept — called Benihana Cafes — in New York.

Ryan's profits up 8% for 1st half

GREENVILLE, N.C. — Ryan's Family Steak Houses Inc. said a 44-percent increase in revenues from franchised restaurants and a 5-percent drop in general and administrative costs combined to lift the company's net income 8 percent, to \$10.3 million, for its first half ended June 28.

Revenues for the first half increased 24 percent year-over-year, to \$115.6 million.

And net earnings for the June-ended second quarter rose 8 percent, to \$5.6 million, on a 23-percent increase in revenues, to \$62.4 million.

The company, which owns 104 Ryan's Steak House Restaurants and franchises 28, said it plans to open a total of 14 new company restaurants and six new franchised restaurants by year-end.

FOCUS | OPINION

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Directors' challenge: No rubber stamps

Boards of directors at restaurant companies and most other corporations too often have been satisfied to rubber-stamp the decisions of chief executives. They have defaulted on their obligations to make decisions, exercise real force, and counter any executive excesses.

The boards have tended to let management run roughshod

Editor's Corner

Charles Bernstein



or permit stockholders to call the shots. However, boards should not merely affirm management actions or the desires of

stockholders; they must make tough choices even if not popular.

Too many boards are dominated by insider executives. While some of them are needed to provide the full background on what is happening, at least two-thirds of a board should consist of outsiders who have the expertise and the objective insight to provide fresh viewpoints. A mix of new thinking is desirable so that the same board members do not prevail year after year.

An encouraging development is a Delaware court's ruling, subject to an appeal and final decision by the Delaware Supreme Court, that Time Inc. can merge with Warner Communications after all. This blocks Paramount Communications (formerly Gulf + Western) from taking over Time.

Although Paramount's latest bid of \$200 a share to acquire Time considerably outshines Time's amended \$70-a-share \$14 billion offer to acquire Warner, the court ruled that Time's and Warner's directors have the right to decide what is best for their respective companies. This thinking goes counter to previous decisions that the highest price wins and that what is best for the stockholders is all that really matters.

The court held that "corporation law does not operate on the theory that directors, in exercising their powers to manage the firm, are obligated to follow the wishes of a majority of shares. Directors, not shareholders, are charged with the duty to manage the firm."

It might also be added that directors, not corporate management, must have the final say in how a company is run. The directors are more objective and have been voted into office by the stockholders.

The court in effect discounted the notion that Time's board, including its top executives, acted to protect its jobs, which presumably would be retained in various capacities under a previous agreement with Warner and would almost certainly be lost in a Paramount takeover.

Boards in general have become more assertive. General Motors' directors, previously a mere reflection of corporate management, finally rose up to oust H. Ross Perot from the board and block chairman Roger Smith from adding three more inside managerial directors.

In the food-service field, Pillsbury's board axed chief executive John Stafford and restaurant group chairman Jeffrey

Campbell last year, before Grand Met of England acquired the corporation. RJR Nabisco's board, which previously had raised hardly a peep at chief executive Ross Johnson's actions, turned down his \$25 billion bid to purchase the company and accepted virtually the same deal from Kohlberg Kravis Roberts.

A prime example of a gutsy board is that of Dunkin' Donuts, which has been standing fast against the efforts by Cara Operations Ltd., a wide-ranging Canadian operator of diverse restaurants and a major contract feeder, to acquire Dunkin' with financing from the Kingsbridge Capital Group. The \$43-a-share offer may be an attractive one for stockholders, but it could result in the dismantling of Dunkin's management, which has astutely operated the chain.

Wendy's problems well may have been caused by a subservient board that does not have enough outside directors experienced in food-service or large-volume companies. Five of Wendy's 13 board members are executives of the chain, and most of the eight outsiders have been on the board for at least seven years.

Perhaps Wendy's board has not been showing objectivity. This point is debatable, and Wendy's would undoubtedly maintain that the company has received the right guidance from the board.

However, the fact remains that a board should reflect independent, individualized thinking for the benefit of the entire company and for the successful operation of its food-service units.

Horn & Hardart's board, which had long been a rubber stamp, finally took action and dismissed chairman and chief executive Barry Florescue last year. The board recently added three more outside directors and took a firm stance, under pressure, to prevent alleged inflated executive salaries and other executive power abuses.

The board of Twistee Treat, a 45-unit Florida ice-cream chain, dropped its president, Steven Townes, and its chief financial officer, Joseph Whelan, six months ago. The loss-plagued chain has now filed for Chapter 11 reorganization. More than a few companies have tried to overcome the "problem" of having a strong board by going private — a situation where corporate management can more easily dictate what it wants.

A more responsible solution is to put the power in the hands of capable outside directors who will make objective decisions. If this had been done in such companies as Sambo's and Victoria Station, they might not have failed. Insiders dominated the boards, dictated what they wanted, and achieved their wishes almost without recorded opposition. Unfortunately, outside directors did not act to prevent executives from veering off in the wrong directions.

Management expert Peter Drucker once observed: "There is one thing all boards have in common. They do not function." This was largely true until the last two years, but it is changing and should continue to change.

It is incumbent on public companies today to ensure that their boards are dedicated to help achieve full development and profit potential without catering to the personal interests of executives and stockholders.

LETTERS

Operators must accept their responsibilities

Editor, NRN:

Once again, you've identified a key issue in which America's restaurant operators need to "wake up and smell the coffee."

Your June 26 Editor's Corner column on the solid-waste disposal crisis should strike a chord in all who read it. Instead of the food-service industry acting like the tail on the dog, it's time it took a proactive leadership role. There are many ways in which this can be accomplished.

In our role as "consumers," we can demand products from our suppliers that are biodegradable or, at least, recyclable. Recycling can be cumbersome and time consuming, but this attitude will change quickly, as the cost of trash removal skyrockets because of overloaded

landfills.

The restaurant industry in America enjoys great prosperity, but with that prosperity comes responsibility. It's our turn to give something back.

— Philip J. Hickey
president

Cooker Restaurant Corp.
Nashville, Tenn.

Cheers to restaurant on behalf of the panda

Editor, NRN:

I have spent seven years in the restaurant business as a waitress, and I have seen many instances of generosity on the part of restaurant owners. However, this last week I was in Palm Springs, and I was touched by what a restaurant is doing to save the endangered panda bear.

The restaurant's name is the Hard Wok Cafe, and this is what is being done. The menu lists an item called Giant Panda Potstickers. For each order of these sold, 5 percent of the sales of this item is donated to save the giant panda. The money goes into a fund at the San Diego Zoo, which will help in the captive reproduction of this beautiful animal. Such concern should not go unnoticed.

You may think this is of no consequence. As an animal lover and activist, I feel that acts like these can combat the elimination of species. I hope your newspaper feels the same.

Thank you for listening to this tidbit of what I think is newsworthy information. I can only hope you feel the same way, so that you will stimulate other restaurant owners through press and advertisement.

— Marie E. Campbell
North Hollywood, Calif.